

Message Text

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ACTION EA-12

INFO OCT-01 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 DOE-15 H-01 INR-10 INT-05
L-03 NSAE-00 NSC-05 OMB-01 PM-05 ICA-11 OES-07
SP-02 SS-15 STR-07 TRSE-00 ACDA-12 PA-01 /129 W
-----076039 220903Z /20

P R 220742Z MAY 78
FM AMEMBASSY JAKARTA
TO SECSTATE WASHDC 8901
INFO AMCONSUL MEDAN
AMCONSUL SURABAYA

C O N F I D E N T I A L JAKARTA 6623

E.O. 11652: GDS
TAGS: ENRG
SUBJECT: PAC/INDO CONTRACTS

1. CALIFORNIA UTILITY REPS HAVE COMPLETED ANOTHER ROUND OF TALKS WITH PERTAMINA AND GOI ON PRICE ESCALATOR IN PAC/INDO CONTRACTS. THEY PLAN RETURN TO WASHINGTON FOR FURTHER INFORMAL MEETINGS WITH DOE BETWEEN MAY 24-27, BEFORE THEY TRY AND WORK OUT FINAL ESCALATOR TO SUBMIT THROUGH DOE'S OFFICIAL REGULATORY PROCEDURE.

2. PLEASED WITH POSSIBILITY OF USING INDONESIAN CRUDE PRICES WITH A LID AS ONE PART OF ESCALATOR, PAC/INDO REPS INTEND RAISE WITH DOE POSSIBILITY OF KEEPING BLS FUELS INDEX ALSO MODIFIED WITH A LID AS OTHER 50 PERCENT OF ESCALATOR.

3. THIS DECISION WAS REACHED AS TENTATIVE COMPROMISE BETWEEN PERTAMINA PRESIDENT DIRECTOR HARYONO, WHO PREFERS MOVE AHEAD PROMPTLY WITH FORMAL SUBMISSION OF PROPOSAL OF 50 PERCENT INDONESIAN CRUDE WITH LID AND 50 PERCENT US WHOLESALE PRICE INDEX (WPI), AND GOI OFFICIALS, SUCH AS WIJARSO AND WIDJOJO WHO PREFER TO HOLD OUT FOR THE BLS INDEX. THESE
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DIFFERENCES OF OPINION HAVE ALWAYS EXISTED, BUT IN PAST TEN DAYS, GOI OFFICIALS HAVE POTENTIALLY STRENGTHENED THEIR ROLE IN DECISION-MAKING PROCESS.

4. ON MAY 10, PRESIDENT SUHARTO ASKED NEW MINISTER OF MINES AND ENERGY SUBROTO TO FORM A "TECHNICAL COMMITTEE" ON THE PAC/INDO CONTRACTS, A MOVE THAT CAUGHT GENERAL

HARYONO BY SURPRISE AND COULD WEAKEN HIS ROLE IN FUTURE LNG DECISION PROCESSES HERE. HARYONO SKILLFULLY MAINTAINED HIS LEADERSHIP IN SUBSEQUENT MEETINGS DURING WEEK OF MAY 15, BUT WITH WIDJOJO, WARDHANA AND SUBROTO NOW THEORETICALLY ABLE TO BE REPRESENTED DIRECTLY ON THE "TECHNICAL COMMITTEE" THE BALANCE OF INFLUENCE COULD TIP IN FAVOR OF HARDER LINE ADVOCATES IN FUTURE DISCUSSIMGDUK

5. SUBROTO'S POSITION IS A MAJOR QUESTION MARK; NEW TO THE JOB, HE IS STILL FORMING HIS OPINIONS, REPORTEDLY IS EXPERIENCING SOME SETTLING IN DIFFICULTIES AND HAS ALREADY HAD AT LEAST ONE CONTRETEMPS WITH HARYONO OVER THE ISSUE OF THE LATTER'S DIRECT ACCESS TO PRESIDENT SUHARTO. ALL THIS ADDS UP TO CONSIDERABLE UNCERTAINTY ABOUT INDONESIA'S ULTIMATE POSITION ON THE PRICE ESCALATOR FORMULA SHOULD THE MODIFIED BLS PROVE UNACCEPTABLE. IN THAT EVENT, HARYONO AND CALIFORNIA UTILITY OFFICIALS WOULD PROBABLY WISH TO FALL BACK IMMEDIATELY TO WPI IN PLACE OF BLS, BUT GOI MAY NOT EASILY GO ALONG, AND WE UNDERSTAND MOBIL OIL IS STRONGLY AGAINST USING WPI.

6. BECAUSE OF THESE COMPLEXITIES, IT IS NOT CLEAR HOW FAR PAC/INDO REPS CAN GO IN DISCUSSING THIS ISSUE WITH DOE. DOE MAY BE INTERESTED THAT MOST BUT NOT ALL GOI OFFICIALS ACCEPT IDEA THAT BLS WITH LID WOULD HAVE TO EXCLUDE IMPACT OF CRUDE OIL EQUALIZATION TAX OR ITS EQUIV-
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ALENT FROM THE INDEX, AND ADDITIONALLY SOME FURTHER STATISTICAL ADJUSTMENT MAY BE REQUIRED TO COMPENSATE FOR THE "FEEDING ON ITSELF" NATURE OF THE INDEX. INDONESIAN DIFFERENCES ON ESCALATOR ARE ONLY PARTLY DUE TO DOMESTIC OR FOREIGN POLICY POLITICAL CONSIDERATIONS. ACCORDING TO STATISTICS USED HERE, INDONESIA WOULD STAND TO GAIN ABOUT \$2 BILLION OVER LIFE OF THE CONTRACTS BY USING BLS INSTEAD OF WPI.

7. PERTAMINA REPS HAVE ASKED EMBASSY'S INFORMAL OPINION REGARDING CONCEPT OF BLS WITH LID. WE REPLIED EMBASSY IS NOT IN POSITION TO MAKE THIS JUDGEMENT AND REMINDED PERTAMINA THAT INFORMAL DISCUSSIONS WIT DOE ARE IN NO WAY BINDING ON DOE DURING ACTUAL REGULATORY PROCEEDINGS, WHICH ARE HANDLED BY DIFFERENT PEOPLE. HOWEVER, WE POINTED OUT THAT DOE'S DECEMBER 31 DECISION ON PAC/INDO STRESSED DESIRABILITY FROM USG VIEWPOINT OF USING BROADBASED GENERAL ECONOMIC INDICATOR FOR ESCALATOR. IN ADDITION, WE THINK POSSIBLE ACCEPTANCE OF 50 PERCENT INDONESIAN CRUDE WITH LID ALREADY REPRESENTS EVIDENCE OF SIGNIFICANT FLEXIBILITY AND GOOD FAITH ON PART OF USG. WE REMINDED PERTAMINA THAT IN APRIL THEY HAD STRONGLY

SUGGESTED THEY WOULD FAVORABLY CONSIDER A GENERAL ECONOMIC INDEX AS 50 PERCENT OF ESCALATOR FORMULA IF USG COULD ACCEPT INDONESIAN CRUDE PRICES WITH LID AS OTHER 50 PERCENT. WE AGREED THIS WAS NOT A COMMITMENT (ESPECIALLY IN LIGHT OF CHANGING POLITICAL SITUATION DESCRIBED PARAS 3-5, BUT ADDED THAT DOE'S REACTION TO NEW BLS SUGGESTION MIGHT BE AFFECTED BY EXPECTATIONS ENGENDERED BY APRIL TALKS. WE ALSO CAUTIONED PERTAMINA NOT TO INTERPRET RECENT FORTHCOMING USG ATTITUDE AS INDICATION USG WILL AGREE TO INDONESIA'S MAXIMUM WISHES WHEN THEY CONFLICT WITH USG ENERGY POLICY OR THE RESPONSIBILITY TO PROTECT US CONSUMERS FROM EXCESSIVE PRICE RISES.

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8. SOME KEY INDONESIANS THINK DOE WILL ACCEPT PRINCIPLE OF MODIFIED BLS WITH LID. OTHERS BELIEVE CONCEPT WILL BE REJECTED. GIVEN DEVELOPING UNCERTAINTIES HERE IN INTRA-GOI DECISION-MAKING PROCESS ON PAC/INDO, WE HOPE DOE IN UPCOMING CONVERSATIONS WITH PAC/INDO REPS CAN BE AS SPECIFIC AS POSSIBLE ABOUT WHAT IS ACCEPTABLE AND UNACCEPTABLE AS ESCALATOR CONCEPT. AMBIGUITIES WILL PROBABLY ONLY FUEL THE DIFFERENCES OF OPINION HERE. MASTERS

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CONTRACTS, ELECTRIC POWER, RURAL AREAS
Control Number: n/a
Copy: SINGLE
Draft Date: 22 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978JAKART06623
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780215-0017
Format: TEL
From: JAKARTA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780534/aaaabckz.tel
Line Count: 145
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: b9c08a99-c288-dd11-92da-001cc4696bcc
Office: ACTION EA
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 30 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2618794
Secure: OPEN
Status: NATIVE
Subject: PAC/INDO CONTRACTS
TAGS: ENRG, ID, CALIFORNIA UTILITY
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/b9c08a99-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014